United States Senate Budget Committee
JEFF SESSIONS | Ranking Member

How Debt Destroys Jobs—And Why We Need A Budget

Higher debt leads to slower economic growth. Empirical studies show that high levels of government debt inhibit economic growth by creating uncertainty, displacing needed private investment, and placing upward pressure on interest rates. For example, Reinhart and Rogoff found that, in advanced economies with gross government debt above 90 percent of GDP, median economic growth tends to be between one and two percent lower (depending on the time period analyzed) when compared to countries with lower debt-to-GDP ratios. Other studies, including Caner, Grennes, and Koehler-Geib's 2010 study of 99 countries between 1980 and 2008, reached similar conclusions. The U.S.' current gross debt-to-GDP ratio is roughly 95 percent, and is expected to reach 100 percent by the end of September.

Slower economic growth results in dramatic job loss. Christina Romer, former chair of the White House Council of Economic Advisers, equated one percentage point of GDP with one million jobs.

Successful debt-reduction measures relying on spending cuts—not tax increases—have consistently resulted in stronger economic growth. Research from Harvard economist Alberto Alesina, as well as a Goldman Sachs report, found that fiscal consolidations that focused on cutting government spending—including on subsidies, transfer payments, and government worker pensions—were successful in cutting fiscal imbalances, typically boosted growth, and were followed by improved equity and bond market performance. Examples of successful spending reductions include Canada and New Zealand in the early 1990s.[1]

Financial markets have issued dire warnings about the consequences of inaction. Against the backdrop of a spreading eurozone debt crisis, the IMF recently urged the U.S. to act swiftly to address its soaring budget deficits, saying that "you cannot afford to have a world economy where these important decisions are postponed."[2] The credit rating agencies Moody's and S&P have warned they may place the US government's AAA rating under review for a possible downgrade within months.

Yet the nation has operated without a budget plan for more than 780 days. The Democrat-led Senate has not even allowed the Budget Committee to meet this year to begin work on a resolution, and has refused to pass a budget at all since April 29, 2009. Over that time, the nation has spent $7.1 trillion and added $3.2 trillion in gross federal debt. Majority Leader Harry Reid recently said it would be "foolish" for Democrats to produce a budget. But nothing could be more foolish than refusing to provide the nation's job creators, investors, and taxpayers with a blueprint for our fiscal future.

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[1] Canada reduced its debt-to-GDP ratio from 100 percent to 82 percent over 7 years, while GDP grew at an average rate of 4 percent. From 1991 to 1997, New Zealand cut its gross debt nearly in half as a percentage of GDP, while enjoying average growth of 3 percent over that period. To view a Budget Committee white paper with additional evidence on the economic benefits of spending cuts, please click here.

[2] Reuters, "IMF cuts U.S. growth forecast, warns of crisis," June 17, 2011.